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# AUDIT REPORT



## BENTON HARBOR HOUSING COMMISSION PUBLIC HOUSING CAPITAL FUND PROGRAM

BENTON HARBOR, MICHIGAN

The Commission Lacked Supporting Documentation and Did  
Not Follow Procurement Requirements Regarding Its Program

2006-CH-1010

MAY 18, 2006

OFFICE OF AUDIT, REGION V  
CHICAGO, ILLINOIS

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Issue Date May 18, 2006
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Audit Report Number 2006-CH-1010
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TO: Robert E. Nelson, Director of Public Housing Hub, 5FPH

FROM:   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Benton Harbor Housing Commission; Benton Harbor, Michigan; The Commission Lacked Supporting Documentation and Did Not Follow Procurement Requirements Regarding Its Public Housing Capital Fund Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Benton Harbor Housing Commission's (Commission) Public Housing Capital Fund program (program). The audit was conducted based upon a request from the U.S. Department of Housing and Urban Development's (HUD) Detroit Office of Public Housing. Our objectives were to determine whether the Commission operated its program in a manner that provides reasonable assurance that (1) expenditures were adequately supported and eligible and (2) procurement transactions met the Commission's and HUD's requirements.

### **What We Found**

The Commission lacked documentation to support more than \$200,000 in program expenditures and improperly used \$500 in program funds to pay expenses related to its Housing Choice Voucher program. Further, the Commission's procurement activities were not conducted according to its and HUD's requirements. These deficiencies existed because the Commission failed to implement adequate procedures and controls, and the Commission's board of commissioners (board) did not exercise appropriate oversight of the program.

We informed the Commission's acting executive director and the director of HUD's Detroit Office of Public Housing of minor deficiencies through a memorandum dated May 5, 2006.

### **What We Recommend**

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to (1) provide documentation to support the unsupported expenditures or reimburse its program from nonfederal funds for the applicable portion (2) provide documentation that it reimbursed its program from its Section 8 housing administrative fees for the improper payment of expenses related to its Housing Choice Voucher program, and (3) implement adequate procedures, controls, and board oversight to correct the weaknesses cited in this report.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided our discussion draft audit report to the Commission's acting executive director, its board president, and HUD's staff during the audit. We held an exit conference with the Commission's acting executive director on April 27, 2006. We asked the Commission's acting executive director to provide comments on our discussion draft audit report by May 4, 2006.

The Commission's acting executive director provided written comments, dated May 2, 2006. The acting executive director agreed with our findings, and agreed to implement procedures and controls to address our findings. The complete text of the auditee's response can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Benton Harbor Housing Commission (Commission) was created for the purpose of providing decent, safe, and sanitary living conditions for low-income individuals. It was organized under the laws of the State of Michigan. A five-member board of commissioners (board) oversees the Commission. The executive director is responsible for managing the Commission's day-to-day operations.

The Commission manages 370 federally assisted low-income housing units in three complexes and scattered sites. It also manages 128 Section 8 Housing Choice Voucher units. In its annual contributions contract with the U.S. Department of Housing and Urban Development (HUD), the Commission agreed to operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of its projects.

The Public Housing Capital Fund program (program) is administered by HUD's Office of Public and Indian Housing's Office of Capital Improvements. Capital funds are for the development, financing, and modernization of public housing developments and for management improvements. The Public Housing Reform Act of 1998 converted HUD's Comprehensive Grant and Comprehensive Improvement Assistance programs to the Public Housing Capital Fund program.

HUD awarded the Commission more than \$2.6 million in program grants for fiscal years 2002 through 2005. As of March 3, 2006, the Commission had drawn down more than \$1.4 million in program funds.

Between July and September 2004, HUD assessed the Commission's public housing performance based upon HUD's regulations at 24 CFR [*Code of Federal Regulations*] Part 902 and gave the Commission a score of less than 60, making the Commission a "troubled" agency. A consulting firm, MDStrum Housing Services, Inc., conducted an assessment of the Commission from March 28 through April 1, 2005, to identify key issues/problems or concerns affecting the Commission. As a result of these assessments, HUD executed memorandums of agreement with the Commission, dated October 2004 and August 2005, requiring it to improve its score to 60 or above.

Our objectives were to determine whether the Commission operated its program in a manner that provides reasonable assurance that (1) expenditures were adequately supported and eligible and (2) procurement transactions met its and HUD's requirements.

## RESULTS OF AUDIT

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### Finding 1: The Commission Lacked Supporting Documentation and Improperly Used Program Funds

The Commission lacked documentation to support \$206,224 in program expenditures and improperly used \$500 in program funds to pay expenses related to its Section 8 Housing Choice Voucher program. These problems occurred because the Commission did not implement adequate procedures and controls over program disbursements. As a result, HUD and the Commission lack assurance that program funds were efficiently and effectively used.

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#### **The Commission Lacked Support for More Than \$200,000 in Program Funds Disbursed**

The Commission was unable to support the use of funds from its program. It lacked support for its use of \$206,224 from its fiscal year 2002 program. The Commission's former executive director requisitioned the funds via voucher #092-223370 from HUD's Line of Credit Control System on April 2, 2005, and the funds were deposited into the Commission's operating account. In April 2005, the Commission prepared three checks totaling \$199,896 to be paid from the \$206,224 in program funds. The three checks were payable to First Contracting, Inc., a window and carpet replacement contractor; however, the checks were voided at HUD's request.

All funds drawn under any housing program, except for the Housing Choice Voucher program, are deposited in the Commission's operating account and then transferred to accounts designated for the Commission's various programs. The Commission continued disbursing funds from its operating account without transferring the April 2005 draw to its program account thereby expending the \$206,224 in fiscal year 2002 program funds. The Commission was unable to provide supporting documentation for the use of the draw. As a result, it could not support whether the \$206,224 was used in accordance with HUD's requirements.

#### **An Improper Expense Was Charged to the Program**

Contrary to HUD's regulations, the Commission charged an improper expense of \$500 to its program. It inappropriately used \$500 in program funds to pay for

consulting services that directly benefited its Housing Choice Voucher program. Regulations at 24 [*Code of Federal Regulations*] 968.112(n)(3) provide that when physical or management improvement would benefit programs other than public housing, such as the Housing Choice Voucher program, eligible costs should be limited to the amount directly attributable to the public housing program.

The Commission paid a consultant, Management Resource Group Inc., \$1,400 for submission of updated utility allowance estimates for its public housing (\$900) and Housing Choice Voucher (\$500) programs. According to a HUD public housing engineer at the Detroit Office of Public Housing, the Commission could charge disbursements made to the consultant to its program under budget line items 1408 or 1410, management improvement or administration, respectively, as long as the services were related to public housing activities. However, the portion of the disbursement to the consultant related to the Housing Choice Voucher program was not eligible; that portion should have been paid with funds from the Commission's Section 8 administrative fees.

**The Commission Did Not Always Comply with Its Controls**

The Commission did not always properly implement its disbursement controls when approving check disbursements. According to the Commission's financial management/internal financial controls policy, a check should be signed by the executive director and the Commission's treasurer. The Commission's treasurer is one of its board members. For example, the Commission issued check number 1368, dated March 10, 2004, under its program to the architects James Childs Architects, which was signed by the former executive director but not signed by the Commission's treasurer or board member.

For at least five program check disbursements, the Commission could not support whether it followed its controls by ensuring that the executive director and/or the treasurer signed the checks. Copies of the five checks on file at the Commission did not reveal the signature of one or two of the signers and the cancelled checks for the disbursements were not available for review.

The Commission generally lacked evidence that its former or acting executive director reviewed the invoices for payments or that its accounts payable clerk approved invoices by comparing them to contracts as required by the Commission's financial controls policy. According to the accounts payable clerk, she did not receive the invoices for the program. Instead, the former executive director received the invoices and instructed the accounts payable clerk on the checks to write for the program, including vendor and dollar amount. Additionally, the former executive director did not always indicate the appropriate account number and "approved for payment" on the invoices.

## **The Commission and Its Commissioners Did Not Implement Adequate Procedures and Controls**

The Commission did not implement adequate procedures and controls for its disbursements. It did not implement adequate controls to ensure funds were properly spent for program activities by regularly reviewing program budgets before incurring expenses or making check disbursements. Additionally, the Commission did not transfer funds drawn from HUD's Line of Credit Control System into the appropriate program account when received or in a timely manner to ensure the funds were used as designated for the program.

According to the former executive director, the Commission's board fired her before she had the opportunity to transfer the program funds from the Commission's operating account to its program account. Additionally, she said she was not provided the opportunity to update the Commission's staff or its board on the activities in progress or outstanding at the time she was fired. The acting executive director, who was previously the Commission's deputy director, said she had no knowledge of the drawdown until the former executive director left the Commission. After that, the Commission did not transfer the funds because the amount of the program funds differed from the amount remaining in its operating account. The acting executive director believes the Commission spent the funds on items other than program activities.

The Commission's board did not adequately monitor the activities of its former executive director and the overall operations of the Commission. The board relied on information provided by the former executive director without obtaining or performing independent verifications.

One former commissioner, who was on the Commission's board for more than 10 years and left the board in September 2005, said she was not that familiar with HUD's requirements and only became more familiar with them after the assessments conducted by HUD in July and September 2004, and MDStrum Housing Services, Inc., in April 2005. One of the current commissioners also informed us that he did not always closely review the information provided the Commission for the board's review.

Based on our review of the Commission's program bank account statements and its board meeting minutes, the board was generally approving the Commission's check disbursements after the checks had cleared its bank account. For example, according to the Commission's August 11, 2004, board meeting minutes, check number 1381 was included in the list of bills for approval and was approved for payment via board resolution #2074; however, this occurred after the check cleared the Commission's bank account on April 15, 2004. Additionally, there



was no evidence that the board reviewed the applicable invoice for approval of payment.

As a result, HUD funds were not used efficiently and effectively.

## Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 1A. Provide documentation to support the \$206,224 in unsupported program disbursements cited in this finding or reimburse its program from nonfederal funds for the applicable amount.
- 1B. Provide documentation that it reimbursed its program \$500 from its Section 8 housing administrative fees for the improper allocation of the consultant study cited in this finding.
- 1C. Implement adequate procedures and controls to ensure program expenditures meet its and HUD's requirements. The procedure and controls should include but not be limited to requisitioning program funds from HUD's Line of Credit Control System for actual program expenses, depositing program funds into the Commission's appropriate bank account, disbursing program funds for expenses related to the Commission's program with supporting documentation, appropriate check signatures by the Commission's personnel, comparison of contractor invoices to ensure that expenses are appropriate program obligations according to contractors' contracts, notating contractor invoices as approved for payment to avoid duplicate payment, and appropriate oversight by the Commission's board over program activities.

## Finding 2: The Commission's Procurement Activities Were Not Conducted According to Its and HUD's Requirements

The Commission's procurement activities were not conducted according to its and HUD's requirements. It did not (1) maintain sufficient records detailing significant procurement histories, (2) have written selection procedures for all procurement transactions, (3) procure architectural services in a manner providing for full and open competition, (4) perform a cost or price analysis for every procurement transaction including contract modifications or independent cost estimates, and (5) have a purchase order or a properly executed contract for services procured with six contractors reviewed for its program. Additionally, the Commission could not provide evidence that it had an approved procurement policy for the period October 2003 through July 2005. These problems existed because the Commission lacked adequate procurement procedures and controls. As a result, HUD lacks assurance that the Commission's procurement awards were conducted through full and open competition.

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### **Procurement Histories Were Not Supported by Sufficient Records**

The Commission did not maintain sufficient records detailing the significant history of its procurement activities or transactions for the period October 2003 through July 2005 with at least 10 contractors. The files or records for its procurement activities generally did not include the rationale of the method of procurement, selection of contract type, contractor selection or rejection, and basis for the contract price. Due to the lack of sufficient documentation, the Commission could not support whether there was any change orders related to these procurements or whether they were properly approved by its board.

We also reviewed the Commission's procurement activities with eight contracts for the period August 2005 through January 2006 to determine whether the Commission had improved on its procurement procedures and its activities met HUD's requirements. The Commission had contracts for all eight contracts; however, it lacked sufficient records detailing the significant history of its procurement activities for at least two contracts.

### **The Commission Generally Did Not Have Written Selection Procedures**

The Commission lacked written selection procedures for all procurement transactions. It did not incorporate or have a clear and accurate description of the technical requirements for the material, product, or service to be procured and

identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

### **Architectural Services Were Procured without Full and Open Competition**

The Commission did not procure architectural services in a manner providing for full and open competition. Instead, it sole sourced the services for several years with one architectural firm, James Childs Architects. According to the president of James Childs Architects, the firm provided services to the Commission for 10 years before it was terminated in January 2005. After the initial selection of the firm, the Commission contacted the firm when architectural services were needed for various projects.

### **The Commission Provided No Support for Cost or Price Analysis or Independent Cost Estimates**

The Commission did not perform a cost or price analysis for every procurement transaction including contract modifications. It also did not always make independent estimates before receiving bids or proposals. According to the Commission's former executive director, the architectural firm performed cost analysis for the Commission. However, the Commission lacked evidence to support that the cost or price analysis or independent cost estimates were performed. The president of James Childs Architects said his firm performed the cost or price analysis for the Commission, but he would have to locate the documentation to support his claim. The president subsequently provided us documentation of the cost or price analysis; however, the documentation related to cost estimates for professional services and construction costs related to the Commission's HOPE VI program, not its Public Housing Capital Fund program. As a result, the Commission and HUD could not be assured that contract prices were reasonable.

### **The Commission Did Not Enter into Contractual Agreements for Services Received**

The Commission lacked a purchase order or a properly executed contract for services procured regarding six program contracts for the period October 2003 through July 2005. For example, the Commission only possessed a proposal, dated October 2003, from a contractor, The Schiff Group, for consulting services

concerning the Commission's HOPE VI application preparation. There was no contract with The Schiff Group, although the Commission made payments of more than \$60,000 to the contractor in April 2004. Additionally, the Commission procured advertising services with the local newspaper, Herald-Palladium, on various dates between October 2003 and July 2005 by placing advertisements for such items as receiving bids, professional help, and the sale of vehicles. However, it did not prepare purchase orders for the advertising services.

The Commission initially entered into a contract for security guard services with Rover Security Guard Agency, Incorporated (Rover Security), on April 27, 1994. The contract was valid for only six months from the execution date. In April 2000, the Commission advertised for bids concerning security guard services and sent out three bid requests, but only received one bid from Rover Security. The Commission had a partially completed protective services contract, dated 2000, for its Harbor Towers project with information on Rover Security including a compensation rate of \$14 per hour, which was signed by the president of the agency. However, the Commission did not sign the contract.

### **The Commission's Documentation Was Not Clear Regarding the Effective Date of Its Procurement Policy**

The Commission had a procurement policy and procedures required by HUD for the period October 2003 through July 2005. The policy generally followed HUD's regulations. However, it was not clear whether the policy was established by board resolution number 1349 during the Commission's board meeting held on July 17, 1990. The Commission's capital funds coordinator was not sure of the policy's effective date.

### **Conclusion**

The commissioners did not adequately monitor the activities of the former executive director or the overall operations of the Commission. They relied on information provided by the former executive director.

One former commissioner, who was on the Commission's board for more than 10 years and left the board in September 2005, said she was not that familiar with HUD's requirements and only became more familiar with them after the assessments conducted by HUD in July and September 2004, and MDStrum Housing Services, Inc., in April 2005. One of the current commissioners also informed us that he did not always closely review the information provided to the Commission for the board's review.

The Commission did not possess a contract and/or change order register to track and control its contracts and change orders. It also did not properly organize its contract documentation for goods or services procured into separate files for easy access. Documentation such as proposals, agreements, and applications for payments were generally mixed together for various vendors or contractors.

The Commission maintained the documentation for contracts or services in various locations, including the interim executive director's office at the Commission's administrative offices and the capital funds coordinator's office located at the Commission's Buss project. During our audit, the Commission's human resources assistant located some procurement-related documentation such as notices and bids in unmarked boxes at the Commission's maintenance supervisor's office located at the Virginia Edwards Community Center. According to the human resources assistant, who was formerly the administrative assistant, the items were boxed up and placed in the storage space after the former executive director left the Commission.

The former executive director told us that she had organized contract or procurement documentation at the Commission by contracts and in filing cabinets. However, the Commission was unable to locate the procurement documentation for the majority of the procurement activities reviewed. According to the president of James Childs Architects, the Commission did not require any specific form or documentation from his firm for recordkeeping. For instance, the architectural firm sometimes provided either verbal or written cost estimates during meetings with the Commission.

The capital funds coordinator, who gradually got involved in the Commission's procurement activities starting in October 2004, was not formally trained in procurement activities until July 2005. According to the former executive director, individuals assigned to Commission's procurement activities did not receive much formal training on procurement. Instead, they read up on the related items and attended HUD workshops that were not necessarily focused on procurement.

As a result, HUD lacks assurance that the Commission's procurement awards were conducted through full and open competition. Additionally, HUD cannot be assured that funds were used effectively and efficiently for the Commission's procurement activities or that the costs charged for the procured services were reasonable.

## **Recommendations**

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 2A. Implement adequate procedures and controls to ensure that its procurement policy approved by its board and HUD's requirements are met, including conducting contract awards through full and open competition.
- 2B. Implement an adequate filing system for its contracted goods or services to ensure that required documentation is properly maintained and complete.
- 2C. Implement contract and change order registers to properly track and control the Commission's contracts and change orders.
- 2D. Implement procedures and controls for its board concerning the procurement process and continually monitor the Commission's contracting and procurement activities to ensure compliance with its and HUD's requirements.

## SCOPE AND METHODOLOGY

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We performed our audit at HUD's Detroit Office of Public Housing and the Commission's administrative offices located at 721 Nate Wells Drive, Benton Harbor, Michigan. We performed our on-site audit work between September 2005 and March 2006.

To accomplish our audit objectives, we reviewed HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 85, 905, and 968, HUD Handbook 7460.8 and Guidebook 7485.3, State of Michigan's Public Act 18 of 1933, HUD's Public Housing Capital Fund Processing Notices for fiscal years 2003 through 2005, Office of Management and Budget Circular A-87, data from HUD's Line of Credit Control System for fiscal years 2002 through 2005, the Commission's annual contributions contract with HUD, board meeting minutes for October 2003 through September 2005, the Commission's procurement policy, bank statements and canceled checks, HUD's 2004 management review report, the Commission's annual audited financial statements for the period ending September 30, 2003, and 2004, HUD's files for the Commission, and the Commission's procurement files and documentation. We also interviewed HUD's staff and the Commission's former and current employees, former and current commissioners, contractors, and former fee accountant.

We initially selected a random sample of procurement activities with 15 contractors or vendors out of a universe of 18 for review to determine whether the Commission followed its own procurement policy and HUD's requirements, using the U.S. Army Audit Agency's Statistical Sampling System. However, upon further review of the procurement documentation possessed by the Commission, we determined that services were procured with several vendors outside of our audit period or services were not procured with the vendors. Therefore, we reviewed the Commission's procurements activities with 14 vendors or contractors under the program from October 1, 2003, through July 31, 2005. We also reviewed check disbursements totaling \$670,509 from the Commission's fiscal years 2002 and 2003 program for the period October 1, 2003, through July 31, 2005.

The audit covered the period October 1, 2003, through July 31, 2005. We adjusted the period as necessary. We performed our audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our objectives:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.



## Significant Weakness

Based on our review, we noted the following significant weakness:

- The Commission lacked adequate procedures and controls over its program disbursements and procurement activities (see findings 1 and 2).

## **FOLLOWUP ON PRIOR AUDITS**

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This is the first audit of the Commission's program by HUD's Office of Inspector General (OIG). The most recent independent auditor's report covered the year ending September 30, 2004. The report contained seven findings, one of which concerning invoice approval and dual signatures, relates to finding 1 in this audit report.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

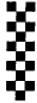
Recommendation number	Ineligible 1/	Unsupported 2/
1A		<u>\$206,224</u>
1B	<u>\$500</u>	
1C		
Totals	<u>\$500</u>	<u>\$206,224</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

AUDITEE COMMENTS

MAY-03-2006 18:11 BENTON HARBOR HOUSING 269 927 6112 P.01/04



**Benton Harbor Housing Commission**  
721 Nate Wells Drive  
Benton Harbor, Michigan 49022  
TEL: (269) 927-3546  
FAX: (269) 927-6112  
TDD: (269) 927-6511

**Juanita G. Gibbs**  
Acting Executive Director

**Cori Robinson**  
President/Chairman

**Sandra Dudley**  
Vice President/Vice Chairman

**Ricky Hill**  
Treasurer/Chairman Finance Committee

**Ralph Crenshaw**  
Commissioner

**Jimmie Caldwell**  
Personnel Committee

May 2, 2006

**Ms. Kelly Anderson**  
Assistant Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Ralph H. Metcalfe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, IL 60604-3507

Dear Ms. Anderson:

The Benton Harbor Housing Commission is responding to the discussion draft audit report of HUD's Office of Inspector General for Audit.


**Regarding Finding 1: The Commission Lacked Supporting Documentation and Improperly Used Program Funds.**

**Response:** This administration agrees that the former executive director requisitioned funds in the amount of \$206,224 from its fiscal year 2002 program via voucher #092-223370 from HUD's Line of Credit Control system on April 2, 2005. This administration also agrees that the funds were deposited into the Commission's operating account. We are also in agreement that the previous executive director continued disbursing funds from its operating account without transferring the April 2005 draw to its program account.

**Recommendations**

This administration is unable to provide documentation to support the \$206,224 in unsupported program disbursements. The previous executive director was the only person in authority with access to the LOCCS system. She alone drew money down and disbursed it at her pleasure. This administration has been asked by HUD officials and members of the OIG staff on several occasions to provide documentation to support program disbursements. We have conducted a thorough search but have been unable to locate any such documentation. Therefore, the Benton Harbor Housing Commission is in the process of developing and implementing internal controls to prevent mismanagement of funds. These internal controls will:

- Promote operational efficiency and adherence to prescribed administrative and managerial policies
- Provide check and balance of accounting data
- Require that two signatures be affixed to all checks

Providing Safe, Decent, Sanitary Housing Since 1949 

## Auditee Comments

MAY-03-2006 18:11

BENTON HARBOR HOUSING

269 927 6112 P.02/04

**An improper Expense Was Charged to the Program**

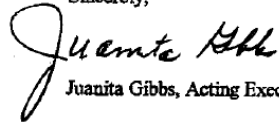
The Benton Harbor Housing Commission agrees that an improper expense of \$500.00 was charged to its program and also agrees that the \$500.00 was used in program funds to pay for consulting services that directly benefits its Housing Choice Voucher program.

**Response**

The Benton Harbor Housing Commission has issued check number 15789 in the amount of \$500.00 to the Housing Choice Voucher program.

Please advise if there is additional information which we must provide.

Sincerely,



Juanita Gibbs, Acting Executive Director

cc: Detroit Field Office

## Auditee Comments

MAY-03-2006 18:12

BENTON HARBOR HOUSING

269 927 6112 P.03/04

### **Benton Harbor Housing Commission**

721 Nate Wells St. Dr.  
Benton Harbor, MI 49022

#### **Findings No. 2**

1. The Benton Harbor Housing Commission does agree that the agency did not maintain sufficient records of procurement history.  
**Corrective Action:**
  - ❖ Written procedures for Small Purchases Procurement and Solicitation complete and implemented.
  - ❖ Written procedures for RFP & RFQ Procurement and Solicitation complete and implemented.
  - ❖ Written procedures for Sealed Bids – Incomplete
  
2. The Benton Harbor Housing Commission does agree that the agency did not have written selection procedures for all procurement transactions.  
**Corrective Action:**
  - ❖ Develop written selection procedures.
  - ❖ Remedial: Selection process presently administered by Capital Funds Coordinator utilizing protocol Benton Harbor Housing Commission Procurement policy.
  
3. The Benton Harbor Housing Commission does agree that the agency did not procure architectural services in a manner providing for full and open competition.  
**Corrective Action:**
  - ❖ Architectural services performed by James Childs & Associates were terminated on January 15, 2005.
  - ❖ Request for proposals complete.
  - ❖ Request for qualifications complete.
  - ❖ Qualification evaluation complete
  - ❖ Remedial: Present architectural and engineering projects performed by Capital Funds Coordinator
  
4. The Benton Harbor Housing Commission does agree that the agency did not perform a cost or price analysis, contract modifications or independent cost estimates.  
**Corrective Action:**
  - ❖ The Benton Harbor Housing Commission has developed and implemented as part of their procurement procedures a request for procurement form listing cost and price analysis, funding source, and items or services required.

## Auditee Comments

MAY-03-2006 18:12

BENTON HARBOR HOUSING

269 927 6112 P.04/04

5. The Benton Harbor Housing Commission does agree that the agency did not have a contract or executed purchase order for contractors reviewed.

**Corrective Action:**

- ❖ The agency presently audits purchase orders and contracts.
- ❖ Request for procurement reviewed and signed by Executive Director or Contract Specialist.
- ❖ Request for purchase reviewed and signed by Executive Director
- ❖ Purchase order reviewed and signed by the Executive Director or Contract Specialist.
- ❖ Receiver signed and verified by the Inventory Clerk.
- ❖ All forms reviewed by Contract Specialist.
- ❖ Authorization for payment form completed, signed and copied by the Contract Specialist.
- ❖ Original forwarded to Accounts Payable.

TOTAL P.04

## Appendix C

### FEDERAL REQUIREMENTS AND COMMISSION'S PROCUREMENT POLICY

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Office of Management and Budget Circular A-87, C(1)(j), "Factors Affecting Allowability of Costs", states that costs must be adequately documented.

Regulations at 24 CFR [*Code of Federal Regulations*] 85.20, "Standards for Financial Management Systems," requires the Commission's financial management systems to meet standards concerning financial reporting, accounting records, internal control, budget control, allowable cost, source documentation, and cash management. For example, the Commission is required to maintain adequate records identifying the source and application of funds provided for financially-assisted activities. Additionally, the Commission must compare actual expenditures or outlays with budgeted amounts for each grant or subgrant.

HUD's Program Integrity Bulletin, issued in November 1990, defines the roles and responsibilities of public housing authority commissioners. The commissioners are to

- Establish and approve by-laws, resolutions, and policies and procedures for internal and external monitoring controls and for detecting and preventing program fraud, waste, mismanagement, and abuse.
- Review and monitor budgets and other documents to ensure expenditures are in compliance with federal and local laws, and other requirements.
- Ensure that the public housing authority is acting legally and with integrity in its daily operations.
- Understand their responsibilities and roles in relation to the executive director.
- Provide clear and concise policy guidelines to the executive director.
- Perform their ultimate responsibility to (a) make policy decisions for determining how programs are administered, (b) obtain funds from various resources, and (c) protect funds needed to keep the public housing authority operating.
- Be responsible for the actions and decisions made by the executive director and the other authority staff.

Regulations at 24 CFR [*Code of Federal Regulations*] 85.36(b)(9) require a grantee to maintain sufficient records detailing the significant history of a procurement, including the rationale of the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Regulations at 24 CFR [*Code of Federal Regulations*] 85.36(c)(1) require all procurement transactions to be conducted in a manner that provides for full and open competition.

Regulations at 24 CFR [*Code of Federal Regulations*] 85.36(f)(1) require that a cost or price analysis be performed in connection with every procurement action including contract



modifications. Additionally, a grantee is required to make independent estimates, as a starting point, before receiving bids or proposals.

Regulations at 24 CFR [*Code of Federal Regulations*] 968.112(n)(3) provide that when physical or management improvement would benefit programs other than public housing, such as a Section 8 program, eligible costs should be limited to the amount directly attributable to the public housing program.

HUD Handbook 7460.8, REV-1, “Procurement Handbook for Public Housing Agencies and Indian Housing Authorities,” requires the Commission to plan its contracts in advance and attempt to obtain full and open competition to ensure that quality goods and services are obtained at a reasonable price.

The Commission’s procurement policy provides that the executive director or designee shall ensure that contracts and modifications are in writing and are supported by sufficient documentation covering the procurement history, including the method of procurement selected, the selection of the contract type, the rationale for selecting or rejecting offers, and the basis for the contract price.

## Appendix D

### SUMMARY OF SERVICES PROCURED AND RELATED PAYMENTS

Contractor	Contract amount	Estimated amount paid on contract	Services or activities under contract	Contract exists (yes or no)	Contract date
First Contracting, Inc.	\$259,720	\$256,418	Carpet/flooring replacement	Yes	June 17, 2004
First Contracting, Inc.	\$514,000	\$522,285	Window replacement	Yes	June 17, 2004
Five Star Heating and Air Conditioning	\$13,830	\$13,830	Chimney repairs	No	2003; exact date undetermined
Five Star Heating and Air Conditioning	\$3,250	\$3,250	Wind damage repairs	No	2004; exact date undetermined
Herald-Palladium	Various amounts	Various amounts (\$1,726 with program funds)	Advertising	No (No purchase order)	Various dates
Industrial Sanitation, Inc.	\$3,422 per month	\$0	Trash removal	Yes	June 30, 2005
James Childs Architects	\$1,750 plus maximum reimbursable expense of \$250	\$1,895 (includes reimbursable expenses)	Design professional services for chimney repairs	Copy received, not signed	January 30, 2003
James Childs Architects	\$10,000 (excluding reimbursable)	\$10,000	Design professional services for compactor	Yes	March 1, 2003
James Childs Architects	\$9,250 (excluding reimbursable)	\$8,325	Design professional services for security system	Yes	September 1, 2003
James Childs Architects	\$33,500 (excluding reimbursable)	\$28,860	Design professional services for window replacement	Yes	October 27, 2003
James Childs Architects	\$16,410 (excluding reimbursable)	\$11,285	Design professional services for carpet/flooring replacement	Yes	October 27, 2003
James Childs Architects	\$22,250 (excluding reimbursable)	\$23,250	Design professional services for HOPE VI application	Yes (letter of agreement)	January 13, 2004
James Childs Architects	\$8,500	\$6,500	Design professional services for generator	Yes	September 29, 2004

<b>Contractor</b>	<b>Contract amount</b>	<b>Estimated amount paid on contract</b>	<b>Services or activities under contract</b>	<b>Contract exists (yes or no)</b>	<b>Contract date</b>
J&G Construction	\$11,828	\$11,828	Roof installation	Yes (work agreements)	June 14, 2004; August 19, 2004
J&G Construction	\$11,001	\$8,521	Roof installation	Yes (signed proposals)	October 14, 2005
James Lee	\$985	\$985	Painting at Harbor Towers	Yes (purchase order)	Undetermined – purchase order not dated
Management Resource Group	Undetermined	\$1,400	Submission of updated utility allowances	No	Undetermined
Management Resource Group	Undetermined	\$995	Agency plan and submission of 2004 public housing agency plan	No	Undetermined
Orkin	\$920/initial setup and \$435/monthly service	\$1,355	Pest control services at Harbor Towers	Yes	May 25, 2005
Reznick Fedder & Silverman CPA Corporation	\$230,000	\$58,072	Consulting services for HOPE VI application and implementation	Yes	November 26, 2003
Rover Security Guard Agency, Inc.	\$14/hour; \$16 for holiday rate (not-to-exceed \$75,264/one-year)	\$100,783	Security guard services	No (not properly executed)	April 27, 1994; June 27, 1995; 2000 (not signed or completed by Commission)
Scans, Inc. D/B/A Security Systems	\$67,215	\$67,215	Security upgrade at Harbor Towers	Yes	November 10, 2004
The Schiff Group	Not-to-exceed \$100,000 plus expenses	\$67,139	Consulting services – grant writing for HOPE VI	No	Undetermined
Wood, Wenham, Henderson Consultants	\$6,800 / \$100 per hour of face time	\$3,400	Consulting services	No	Undetermined